

Message Text

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41

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AGR-05 AID-05 COME-00 EB-07 SWF-01 FRB-01

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

AEC-05 CEA-01 FEAE-00 FPC-01 INT-05 SAM-01 OES-03

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P R 121500Z DEC 74

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC PRIORITY 5733

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L MANAGUA 4782

GUATEMALA ALSO FOR ROCAP

E. O. 11652: GDS

TAGS: PFOR, NU

SUBJECT: DISCUSSION WITH PRESIDENT SOMOZA RE CARACAS

MEETING OF CA AND PANAMANIAN CHIEFS OF STATE

1. PRESIDENT SOMOZA DISCUSSED WITH ME TODAY (DECEMBER 11) THE VARIOUS ITEMS ON THE AGENDA AT THE UP-COMING CENTRAL AMERICAN AND PANAMANIAN CHIEFS OF STATE MEETING WITH THE VENEZUELAN PRESIDENT BEGINNING IN CARACAS, DECEMBER 13, AND COMMENTED ON THESE AGENDA ITEMS.

A. PRESIDENT SOMOZA SAID THAT VENEZUELA WAS PROPOSING THE
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FINANCING OF A RETENTION AGREEMENT ON COFFEE. THE VENEZUELAN

GOVT. WOULD FINANCE 20 PCT. OF EACH COUNTRY'S COFFEE AT 50 PCT. VALUE. SOMOZA SAID THAT IT WAS HIS UNDERSTANDING THAT ALL OF THE COUNTRIES OF CENTRAL AMERICA WERE IN AGREEMENT ON THIS RETENTION SCHEME WITH THE EXCEPTION OF NICARAGUA. HE SAID THAT THE NICARAGUAN GOVERNMENT WAS RELUCTANT TO ENGAGE IN WHAT MIGHT APPEAR TO BE A "CARTEL TYPE" ARRANGEMENT, AND THAT THE COFFEE GROWERS OF NICARAGUA WERE NOT ENTHUSIASTIC. RATHER THAN TO MAKE A TOTALLY NEGATIVE POSITION, HOWEVER, WHICH SOMOZA FELT WOULD BE POLITICALLY UNWISE AT THE CARACAS MEETING, HE PRESENTLY PLANNED TO TACITLY ACCEED, BUT PROBABLY NOT IMPLEMENT ANY SUCH AGREEMENT. HE INDICATED THAT HE INTENDED TO AVOID TAKING A FIRM POSITION ONE WAY OR THE OTHER ON THE RETENTION SCHEME.

B. DISCUSSIONS WILL BE HELD REGARDING THE VENEZUELAN PROPOSAL TO ESTABLISH A MECHANISM WHICH WOULD ESTABLISH A FUND TO BE HELD BY EACH COUNTRY'S CENTRAL BANK OF THE DIFFERENCE BETWEEN THE PRESENT POSTED PRICE OF OIL IN VENEZUELA AND THE PRICE AS OF 1972. THIS DIFFERENTIAL WOULD BE MADE UP OF 100 PCT. OF THE DIFFERENCE IN 1975, 80 PCT. IN 1976, 60 PCT. IN 1977, 40 PCT. IN 1978, 20 PCT. IN 1979, AND ZERO IN 1980. THE FUNDS ACCUMULATED FROM THIS DIFFERENTIAL COULD BE SPENT ON MUTUALLY AGREED UPON (BETWEEN THE INDIVIDUAL COUNTRIES AND VENEZUELA) DEVELOPMENT PROJECTS, AND VENEZUELA IS PRESENTLY INSISTING THAT THESE FUNDS CARRY AN EIGHT PERCENT INTEREST RATE, WHICH SOMOZA FEELS IS HIGH AND WHICH HE HOPEFULLY WITH OTHER CENTRAL AMERICAN PRESIDENTS CAN NEGOTIATE DOWNWARD. ONE OF THE FEATURES, WHICH DISTURBS SOMOZA, IS THAT THE FUNDS WILL BE REPAYED IN BOLIVARS. SOMOZA SAID THAT THIS RAISED SEVERAL PROBLEMS: (1) VENEZUELA COULD AT ANY TIME ADJUST THE RATE OF THE BOLIVAR ADVERSELY TO A CREDITOR COUNTRY. (2) BOLIVAR'S ARE EXTREMELY DIFFICULT TO OBTAIN ON THE WORLD MARKET AND THERE IS NOT SUFFICIENT TRADE WITH VENEZUELA BY ANY OF THE COUNTRIES TO GENERATE ENOUGH BOLIVAR'S AS PAYMENT FOR INDIVIDUAL COUNTRIES GOODS AND SERVICES. (3) IT APPEARED TO HIM THAT THE PRIMARY REASON FOR VENEZUELA'S INSISTANCE ON THE USE OF BOLIVAR'S IN THIS WAY WAS AN EFFORT ON VENEZUELA'S PART TO ESTABLISH THE BOLIVAR AS AN INTERNATIONAL CURRENCY WHICH HE CONSIDERED UNREALISTIC.

C. BI-LATERAL ASSISTANCE FROM VENEZUELA TO HONDURAS. THIS WOULD BE PRIMARILY A BILATERAL NEGOTIATION BUT WOULD BE TAKEN UP AT THE SAME TIME AS THE PRESIDENTIAL MEETING.

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D. STRENGTHENING CABEL. VENEZUELA HAS PROPOSED THAT OF THE \$500 MILLION IT IS MAKING AVAILABLE TO THE IDB, \$50 MILLION IS TO BE DIVERTEED TO CABEL DIRECTLY FOR CENTRAL AMERICAN GOVERNMENT LENDING. SOMOZA'S POSITION WILL BE AN EFFORT TO HAVE THE \$500 MILLION LOAN TO IDB REMAIN IN TACT AND HAVE VENEZUELA MAKE A \$125 MILLION LOAN DIRECTLY TO CABEL.

3. MISCELLANEOUS BILATERAL MATTERS NOT COVERED BY THE ABOVE.

PRESIDENT SOMOZA SAID THAT HE HAD HAD A USEFUL DISCUSSION WITH COSTA RICAN PRESIDENT ODUBER THIS MORNING (ODUBER IS VISITING MANAGUA TODAY) AND WILL HAVE A FURTHER DISCUSSION WITH HIM TONIGHT. SOMOZA SAID THAT ODUBER HAD AGREED TO PROPOSE THE "HARD-LINE" POSITIONS WHICH HE (SOMOZA) WISHES ON ITEMS (B) AND (D) TO BE BACKED UP IN THESE POSITIONS BY SOMOZA, SINCE FROM A NEGOTIATING POINT OF VIEW HE FELT THAT ODUBER WAS IN A BETTER POSITION TO TAKE THE NEGATIVE POSITIONS ORIGINALLY THAN WAS HE WITH THE VENEZUELAN PRESIDENT. PRESIDENT SOMOZA SAID THAT THE ECONOMIC SITUATION OF THE CENTRAL AMERICAN COUNTRIES WITH THE EXCEPTION OF NICARAGUA, AND POSSIBLY GUATEMALA, MADE IT VERY DIFFICULT FOR THEM TO TAKE HARD NEGOTIATING POSITIONS AGAINST ANY OFFERS MADE BY VENEZUELA, BUT SOMOZA SAID THAT IF NECESSARY HE WOULD DO SO. PRESIDENT SOMOZA SAID THAT IT APPEARS CLEAR TO HIM FROM THE PRELIMINARY DISCUSSIONS WITH THE MINISTERS IN VENEZUELA, THAT VENEZUELA IS ATTEMPTING TO EXPAND ITS INFLUENCE OVER CENTRAL AMERICA, BUT THAT HE WAS WARNED BOTH ODUBER AND MOLINA OF THE DANGERS OF POSSIBLE LONG RANGE CONSEQUENCES OF ATTEMPTING WHAT APPEARED TO BE "EASY SOLUTIONS" OF IMMEDIATE PROBLEMS.

2. PRESIDENT SOMOZA ADDED, DURING THE CONVERSATION, THAT THE TENTATIVE PROPOSAL WHICH HAD BEEN DISCUSSED WITH VENEZUELA RE BUILDING A REFINERY IN COSTA RICA TO SUPPLY THE PETROLEUM NEEDS FOR ALL OF CENTRAL AMERICA "WOULD UNDER NO CIRCUMSTANCES" GET OFF THE GROUND BECAUSE HE SAID THIS WOULD BE COMPLETELY UNACCEPTABLE TO OTHER CENTRAL AMERICAN COUNTRIES WHO WOULD BE ENTIRELY DEPENDENT ON THE ABSENCE OF INDIVIDUAL REFINERIES ON THE WHIMS OF THE VENEZUELAN-COSTA RICAN COMPLEX.
SHELTON

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